RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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April 17, 1991 **LETTER 1067**

STRANGE: Strange things are happening. The S&P Composite, the NYSE Composite, the Wilshire, the NMS averages, they have all recently advanced to record highs. Yet neither the D-J Industrial Average, the D-J Transportation Average nor the D-J Utility Average has made it to new highs. In other words, none of the D-J Averages have confirmed. I don't think I've ever seen anything quite like it.

TRANSPORTS: Another facet of this market which interests me is the current very lofty price level and valuation of the Transportation Average. The D-J Transportation Average is made up of airlines, railroads and truckers (a modern revision of the old D-J Rail Average, which was composed of 20 railroad stocks). Study these statistics: the D-J Transportation Average now sells at 78.2 times earnings, it sells at 1.46 times book value, and it provides a minuscule yield of 1.64%. At 1.64% yield, you pay 60 dollars for every one dollar of Transport dividends. That's the highest valuation for the Transports in history.

In his latest mailing, Jim Grant (*Grant's Interest Rate Observer*, 233 B'way, NYC 10279) included an original chart showing the dividend yield and price/earnings ratio for the Transportation Average going back to 1962 (see chart on page 2). So at today's valuation, the Transportation Average (to use an old Wall Street expression) isn't just discounting the future, it's discounting the hereafter.

PATTERNS: The head-and-shoulders pattern in the Dow (that I referred to in the last Letter) has still not been resolved one way or the other. The Dow has not been able to break out above the head at 2973.27 nor has it wanted to break below the neckline or support level at 2855.45. Furthermore, the Transportation Average, like the Dow, has been remarkably and impressively resistant to decline. So what do we do? We wait patiently for the Averages to tell their story.

PTI: Now refer to the page 2 chart. My Primary Trend Index broke above its 89-day moving average on January 31. This put it in the bullish mode. Therefore, subscribers who ignore my thoughts and opinions and invest strictly on the trend of the PTI (which tends to be more prescient than I am) are currently in the market.

A-D RATIO: The advance-decline ratio at the bottom of the same chart presents an interesting picture. Remember, the A-D ratio is a good proxy for the average portfolio. The upturn for the A-D ratio (and most stocks) began from the October 31 low. But the initial advance from October 31 to December 6 was almost completely erased by the subsequent decline to the January 15 low.

From the January 15 low, a "buying stampede" began. If you remember, my definition of a buying stampede is any advance of five points or more in the A-D ratio without so much as a one point correction. On the basis of that definition, the buying stampede is still in force. Since January 15, we have not seen a decline of as much as one full point in the A-D ratio (although the decline from the March 6 peak missed a full point correction by the tiniest of fractions).

Note that the A-D ratio recorded its low on October 31, but the PTI continued down until January 14. When the PTI finally turned up on January 15, the buying stampede began.

Apr. 5 DJIA 2896.78; PTI 3229; A-D Ratio -11.66
Apr. 12 DJIA 2920.79; PTI 3247; A-D Ratio -11.35
Dow Yield: 3.45%; Dow P/E: 17.9; DowPow: 20
Dow 200-day MA: 2690; Dow 30-day MA: 2914
Dow Book Value: 1276; PTI 89-day MA: 3183
Percentage of Undervalued Blue-chips: 15%

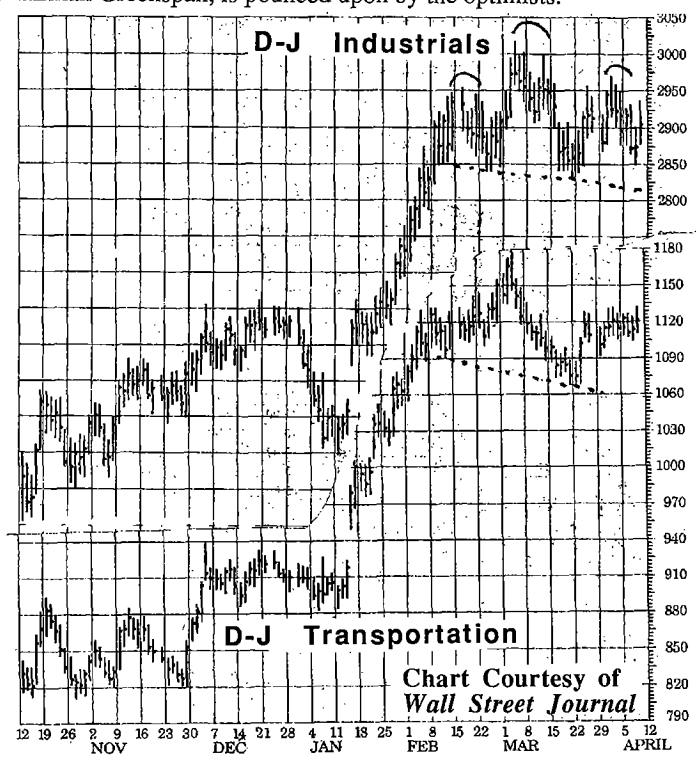
VALUES: As this is written, the Dow is selling at 29 times dividends and the S&P is selling at 30 times dividends. This tells us that the stock market is expensive, that stocks are selling in the historical zone of tops, and that investors are in an exceedingly optimistic mood.

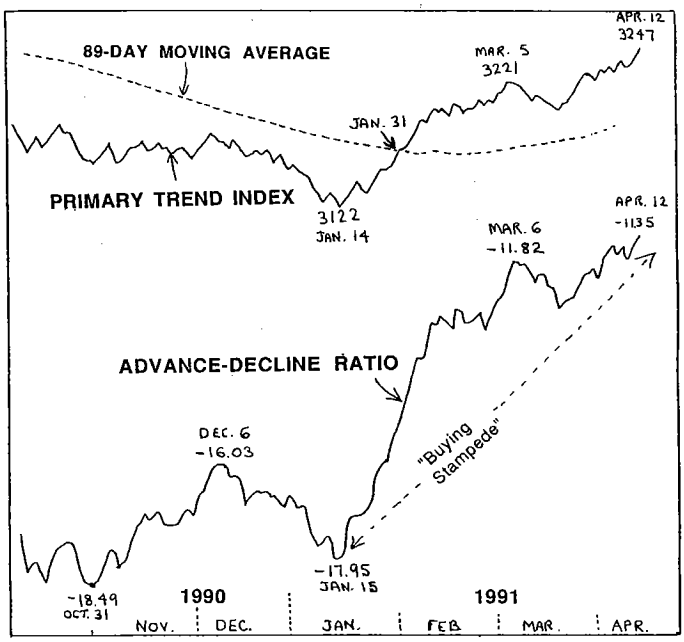
True, the stock market is subject to huge mood swings, swings which tend to dovetail with primary bull and bear markets. At the peak of a bull market, the Dow, historically, has sold at 30 up to even 38 times dividends. At the bottom of a bear market the Dow has sold as low as 9 times dividends.

Growth Fund Guide (Box 6600, Rapid City, SD 57709) just published a most informative study of price/dividend ratios during and after recessions. Since 1899 there have been 20 recessions in the US. The average **low** price/dividend ratio for the Dow at or near the beginning of these recessions was 17.

The average **high** price/dividend ratio near the end of the recession or even into the subsequent boom was 30. In nine of the 20 cases, the market topped out with the Dow selling at price/dividends of 30 or below. With this in mind, it is well to remember that the Dow is now selling at almost 30 times dividends.

RECOVERY?: Never has the end of a recession been so widely anticipated, so widely advertised, so emphatically predicted by both the Administration and the economists. Every blip up in the leading indicators, every move in the consumer's confidence index, every jiggle in interest rates or production figures, every utterance by Fed Chairman Greenspan, is pounced upon by the optimists.





Today, the name of the game in Washington and Wall Street is "Recovery." The Bush Administration would have us believe that Saddam Hussein and the war were the reason for the recession, and now that the war is over, recovery lies just ahead. Furthermore, despite the Administration's lame excuses, it's widely conceded that Bush called off the war too soon -- and the result has been a disaster. Economic recovery would serve to get the voters' minds off the Mideast screw-up and killing fields and on to happier visions.

EUPHORIA: Most recently an euphoria has enveloped the land, and my feeling is that the euphoria is a reflection of the Persian Gulf victory along with the spectacularly high popularity reading still being enjoyed by President Bush. Suddenly, the nation feels that America is again "America, the beautiful." Flags have been flying from cars, houses, and buildings, yellow ribbons are everywhere. It's as if Americans have finally come out into the sun -- after their long stay in the dungeons of gloomy sentiment.

There's no question in my mind but that this euphoria has rubbed off on the stock market, the bond market and the dollar. And I try to be fair and put this euphoria into perspective. But frankly, I don't think the euphoria is warranted. In fact, I think it's ridiculous.

I believe that this nation has far too many problems that it has failed to address. The major problem concerns debts and deficits -- debts and deficits which have invaded every nook and corner of the nation.

This is the year when "the big squeeze" has hit the corporations, and almost daily we read of lay-offs, firings, furloughs and dividend cuts. This is hard medicine, but ultimately it should make for a leaner and meaner America.

Unfortunately, 1991 is also the year of the big squeeze on the states, cities and municipalities. At least 31 states face deficits this year, and next year doesn't look much better. Economist Henry Aaron of the Brookings Institute says he believes that state and local budget strains of the '90s could turn out to be the worst since the Great Depression.

Currently, a dozen states are considering major tax hikes, while the majority of other states are planning boosts in secondary taxes such as sales taxes, luxury taxes, and sin taxes. All in all, new taxes figure to take roughly $10 billion out of the consumer's spending stream -- this in the face of consumers who are already squeezed by rising prices, nagging interest costs, and ridiculously high Social Security "taxes" (in 1980 the Social Security bite was 12.2%, now it is 15.3%).

Aside from new taxes, states and cities are trying to solve their deficit problems via the pink slip. Firings, lay-offs, abbreviated hours, decimated agency budgets, curtailed services, all of these are being used in a desperate effort by the states to balance budgets or at least to shrink deficits. The result is a steady rise in the unemployment rolls and a steady decline in public services.

As for the stock market, much of the rise has been based on Fed action in reducing interest rates and flooding the banks with reserves. Along these lines, it is worth listening to Bill Bretz, a long-time student of the market and of Fed policy. "For those bullish analysts who expect the stock market to get a big lift from the easy money policy of the Federal Reserve, my combined monetary index hasn't picked up any inkling of it yet. In fact, the latest figures released by the banking authorities caused the index to turn further down.

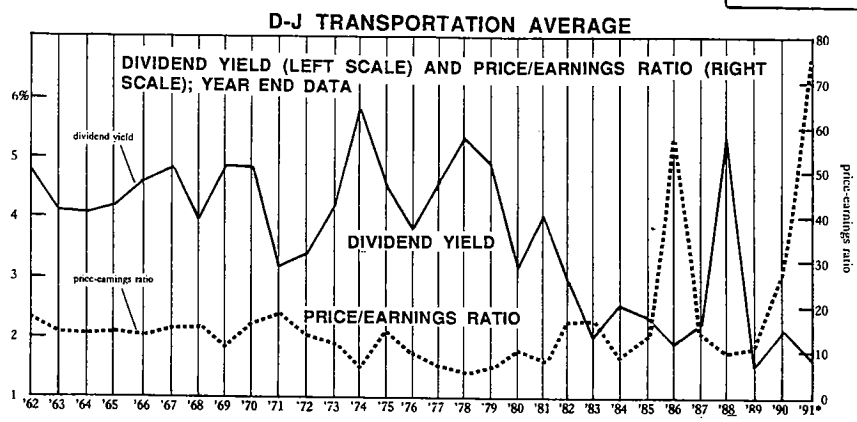
"Up to now all that I see in the massive expansion of commercial bank reserves is failure. This intense intervention by the central bank has had almost no impact on the growth rate of the stock of money, or on the many other monetary relationships which create a business boom. Naturally, these conditions could soon appear, but so far they haven't. What it means to investors is that the stock market has not been going up because a business boom is developing, but because many people out there have too much money and enjoy gambling with it regardless of the bleak outlook." (Bretz's *Juncture Recognition,* Box 1209, Pompano Beach, FL 33061).

INVESTMENT POSITION: If both Averages break out above recent highs you have to be impressed, and if that happens I'd say we're in for a final surge in this market. That would be the surge from today's over-valuation to a state of EXTREME over-valuation.

In this business, it's not just how much you make, it's how much you keep. Over-valued markets tend to be tricky, erratic and dangerous markets in that buyers are not loading up on stocks for investment purposes, they're greedily buying stocks to unload on someone else, hopefully at a profit.

This is one of those times when you have to check your greed. Merrill Lynch quotes 6.30% on its money market fund, 6.00% on its very safe government money market funds, and a minuscule 3.85% on its California tax free fund. Those aren't terribly attractive figures for this day and age, but that's what's being offered.

The newspapers and magazines are flooded with all manner and varieties of mutual fund advertisements, each claiming to be champion at something or other. I understand that many of the tax-free state funds are invested in a percentage of questionable or dicey items, and I'm getting a little queasy about them. The safest of all the funds are the government T-bills



funds (or T-bills themselves). Benham Management has one (1-800-321-8321) and so does United Services (1-800-873-8637).

1966-74: I wrote many months ago (following the Dow Theory bear signal of January 1990) that I expected this bear market to be extended, deceptive and very difficult to follow. I also wrote that I thought this bear market could be much like the confusing period following the 1966 bull market top. I'm referring to that long period (1966 to 1974) in which the market raced up and down in a series of deceptive "mini bull and bear markets" -- but all occurring within the framework of a major primary bear market. I stated after the 1966 top that the bear market which would follow would only end when stocks again represented great values. And I'm saying the same thing about this bear market.

At this point, I feel it's worth reviewing the 1966-74 bear market period. The chart at the bottom of this page follows the Dow from its 1966 bull market peak through all the rises and declines (i.e., mini bull and bear markets) to the final wind-up of the bear market in 1974. Those of us who lived through this period may squirm uncomfortably as we remember the long, tortuous years leading to the final, crushing 1974 bottom.

The bull market which began in 1949 topped out in February 1966 with the Dow at a high of 995.15. The ensuing severe decline took the Dow to a low of 744.32 in October of that year. From there a long speculative rise followed (remember the explosion in the science stocks -- and any stock ending with the suffix -ionics?) The advance ended in December of 1968, with the Dow topping out only 10 points under its 1966 high (Transports actually bettered their '66 high by 7 points).

From the wildly speculative 1968 peak, the market turned down. By May 1970 the Dow had collapsed to a closing low of 631.16. A new mini-bull market then carried the Dow back to 950.82 in April 1971. That rise was followed by an irregular decline to a low of 797.97 in November 1971.

From here another mini bull market began, and by January 11, 1973, the Dow had risen to a new record high of 1051.70. Transports, however, had topped out a week earlier, on January 2, at 228.10. Significantly, the January 2 Transport peak was 47 points below the Transport peak of the previous year.

The seven years of back-and-forth action had exhausted Wall Street and most of the players. The market turned down again in January 1973. The downtrend which began so innocently in early-1973 continued through the year and throughout most of 1974. Its persistence and violence was incredible. By late-1974 the decline had turned into the worst bear market collapse since the 1930s.

On October 3, 1974, Transports recorded a bear market low of 125.93. A month later, on December 5, the Dow struck its own bear market low at 577.60. The Transports, however, refused to confirm the new low in the Dow. With that dramatic non-confirmation and amid great values in stocks, the bear market ended.

At the 1974 lows, the Dow was yielding over 6% and selling at six times earnings. The great majority of stocks on the exchanges were selling at "give away" prices. Near the final panic lows of late-1974 bids dried up, and I remember the following very well. General Cinema (a stock which I had always liked) was selling at 7 1/2. On one particularly panicky day I put in a bid for 500 GCN at 5, which was 2 1/2 points below the previous day's close. To my surprise the order was immediately filled (there were no other bids and somebody had put in an order to sell GCN at the market). In late-1974 stocks were selling at prices below known value. On the same day I bought Woolworth at 10, and I remember that at a price of 10, the market was valuing each individual Woolworth store at only $50,000. It was bargain time in America. That was a bear market bottom.

In retrospect, the long, tortuous period following the 1966 bull market high was a tough one for me. I didn't want to play the ups and downs of the market, I was convinced that stocks remained generally overvalued. The big averages were running up to the highs, then dropping back again, and I realized that during that period more people were losing money than making it. Traders would make a bundle, only to lose it again as each assault on the Dow 1000 zone was followed by a vicious sell-off.

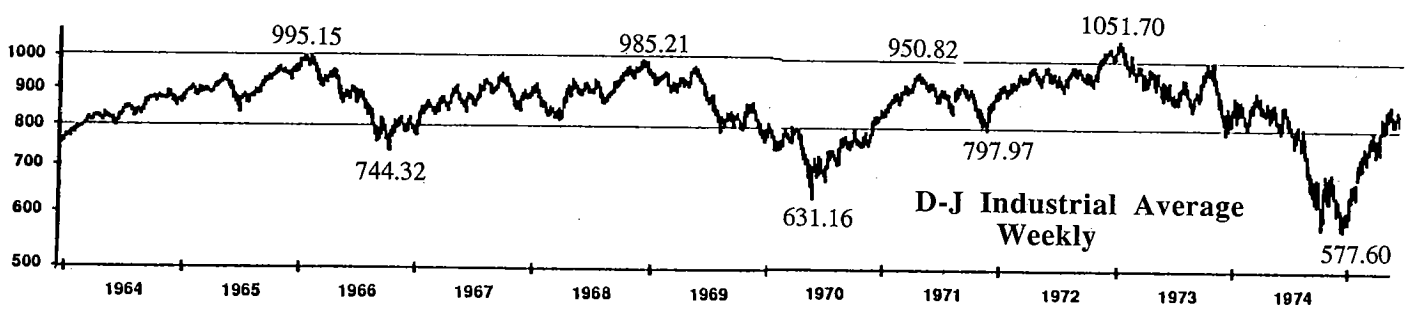
George Schaefer (the great Dow Theorist of the '40s through '70s) was writing his Dow Theory letters during that period, and Schaefer felt very much the way I did. Once a bull market is in its final speculative phase and stocks surge into the overvalued area, it's time to sell. Later when a bear market is actually confirmed under Dow Theory -- correct procedure is to wait patiently (regardless of any and all market movements) until the bear market runs to its final conclusion. The main indication of the end of a bear market is seen when good blue chip stocks decline to an area of great value (actually, in most cases, to below known value).

This is the reason why I feel that the *IQ Trends* chart on page 2 of Letter 1064 is so instructive -- and so important. That chart showed that the percentage of blue chip stocks was down to a very low 16% (it is now at an even lower 15%). Historically, this places the market in the area of tops, not bottoms. If you review the chart you'll see that when a true bear market bottom arrives, 78% to over 80% of all the blue chip stocks will have sunk to the bargain or undervalued area.

The secret to making important money in the stock market is to buy good dividend paying stocks when they are undervalued (i.e., at or near a bear market bottom) and to hold those stocks throughout the next bull market. You hold those stocks through thick and thin -- until they reach an area such as the present one, where the Dow is yielding 3.45% and only a small percentage of the blue chips are still undervalued.

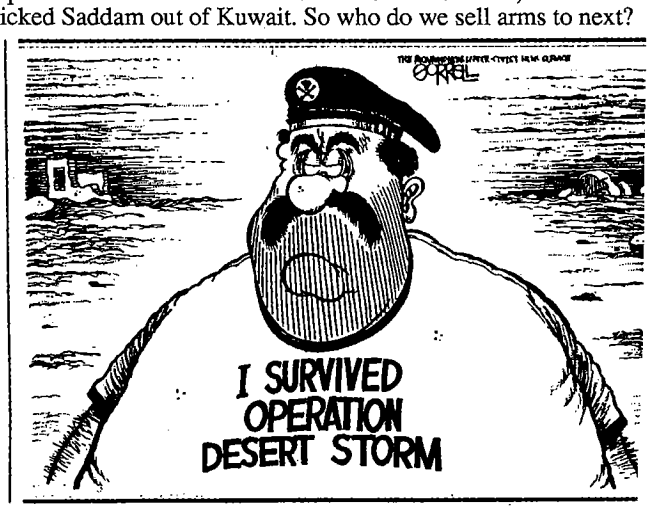
In other words, based on value considerations, stocks should be sold here, not bought. The only reason for holding overvalued stocks is in the hopes of selling them to a greater fool. But all too often stocks will turn down before you can find that greater fool.

NOTES & QUOTES: "The New World Order": With the war euphoria wearing off, thinking people are beginning to question what the war was all about and just what was gained (or lost). Columnist George Will writes, "We are in the war's fourth stage. The four have been (1) Diplomatic blunders that brought on the war, (2) Preparing to fight, (3) Fight, (4) Enjoying Charlton Heston and Whitney Houston specials celebrating the war that had been the nation's favorite TV program. The fifth stage, scrubbing the pitch off our hands -- will last longer than the other four combined."



NY Times columnist William Safire is less kind. His April 4 piece is entitled, "Bush's Bay of Pigs." Says Safire, "The enormity of the dishonor brought on the US by President Bush's decision to betray the Kurdish people is beginning to sink in at the White House. Today, the news of death and starvation being inflicted on the countless innocents double-crossed by George Bush is spreading a sense of revulsion through our body politic. The US President repeatedly urged the Kurds to rise up against Saddam Hussein; he telecast his promises to keep the tyrant's gunships grounded. Mr. Bush then broke his word, which enabled Iraqi's killers to break the back of the rebellion from the air. Not since the days of Jimmy Carter's Desert One has a failure of nerve resulted in such ignominious American defeat. Not since John Kennedy failed to provide air cover at the Bay of Pigs has a President made such a costly military blunder."

Safire's view is at odds with the editorial policy of the *NY Times*. My view -- I thoroughly agree with both Will and Safire. Saddam is still in power, Iraq has been physically destroyed, Kuwait has the Emir back on the throne plus 600 burning oil wells, over one hundred thousand people have been killed, two million Kurds and Shiites are refugees, famine and pestilence stalks Iraq, and Bush repeats that we did what we came for -- no more, no less -- we kicked Saddam out of Kuwait. So who do we sell arms to next?



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I've said this for years, but I'll repeat it. The seeds of the fall of Communism were sowed with computers, copying machines and TV. The Soviets some years ago had to decide whether to introduce computers into their schools or to continue to ban computers and copying machines and consequently lag behind the capitalist nations. They decided to take a big chance -- they introduced the means of communication to the people. With this monumental decision, the masses under Communist rule finally got a chance to see and compare their miserable standard of living with that of the West. That was the beginning of the end of Communism from one end of the earth to the other (and the pressure is just beginning in China).

Emerson wrote, "There is nothing as powerful as an idea whose time has come." But the idea has got to get out. TV has done the job. Populations around the world now see that Communism is bankrupt, it produces nothing but repression and poverty. And they also see the fruits of free enterprise. And they want those fruits.

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Can you believe it, MODERATION is "in"?! In the last two weeks *Los Angeles* magazine, *New York* magazine and *San Diego* magazine all published lists of great restaurant dinners at moderate prices, most under $10. Meanwhile, expensive restaurants nationwide revise their menus downward in price.

The latest issue of "*W*" magazine, the publication that tells you who and what is happening in high society, headlines "The Social Recession, N.Y.'s Prime Cutters." Says *W* breathlessly, "It's no longer chic to go out every night . . . Soft society is in. States socialite Georgette Mosbacher, 'There's not the same enthusiasm as before. It's really hard work to raise money for events now. People are picking and choosing. They want to keep a lower profile.' Designer Carolyne Roehm, wife of LBO king Henry Kravis, says, 'That's the issue, we aren't going out. At first, Henry and I thought it was just us, but we talked to friends, and they weren't going out either' . . . And a top real estate broker notes, 'Prices have dropped, so things are starting to sell at bargain rates. Since the beginning of the war, there seems to be a buyer's market. Houses (in NYC) that would have gone in the $6 million range can now be bought in the $3 million range. There are a lot of Italians and Spaniards in town to shop." Russell comment: There it is -- straight from the horse's mouth, moderation has hit the Big City.

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FDIC Chairman William Seidman finally told the real story of the bank scandals. "The fundamental problem in the banking industry is that they become substantial real estate lenders, and they have made some imprudent loans. They made loans in a way that was unlawful back in the '70s. They made loans on raw land, they made loans on construction without having somebody take the long-term interest in those loans. They made loans without the builder having any equity. That's where the heart of the problem is -- and it wouldn't have been legal in the '70s."

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You think it's cheap for a big outfit to go bankrupt? The law firm of Skadden, Arps charged retailer Carter Hawley Hale $714,000 in fees and expenses for bankruptcy work from Feb. 11-28. That comes to $42,000 a day.

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Sumo wrestling is almost a religion in Japan (actually, Sumo has many religious rituals and overtones). However, non-Japanese Sumos have never been particularly welcome in Sumo. But recently two Americans (from Hawaii) competed for the top ranks of Sumo. One was former basketball player Chad Rowan (known as Akebono) and the other is former football player Sal Atisanoe (known as Konishiki). Chad is 6'8" and weighs 420 pounds, Sal is 6'2" and weighs 520 pounds. It was the first time in the 1,200 year history of Grand Sumo that two foreign-born competitors had met in competition. Of the 700 men in the professional Sumo ranks, the two Americans rate among the top 12. History was made a month ago in Osaka.

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You probably watched the Academy Awards but three of Hollywood's top moguls were absent. Presidents Akio Morita and Norio Ohga of Sony (they own Columbia Pictures) and President Akio Tanii of Matsushita (they own Universal) stayed in Tokyo. Reason: they didn't want a Japanese presence at the Awards for fear the public would think that the Japanese were interfering with the studios' creativity.

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You know, I read about baseball and I wonder: one-third of all major league players now make at least $1 million a year. At least 40 players make $3 million a year. Clemens and Gooden make $5 million a year. Canseco, Ewing, Gwynn and Strawberry make over $4 million a year. Is baseball going to price itself out of the market? Well, not quite yet, but maybe soon. Then I hear of a new government contract for helicopters for $34 billion, and I say, "What the heck, the ball players are at least giving us some pleasure for our money, and what does a team payroll of $30 million matter when compared with a government that is running deficits of over $1 billion a day?"

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Pity us Californians. First we get a five-year drought, then we get flood rains in March, then our new Governor Wilson discovers that the California state deficit has almost doubled in the last few months from $7 billion to $12.75 billion. The unbelievable new deficit couldn't be closed even if all the state colleges and prisons were closed and every single state employee was fired. Democrats here want to raise the state income tax from 9.3% to 11%. Governor Wilson says no, it's got to be a sales tax. A compromise is nearing, and Californians are shuddering.

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With a big gain from the Midwest, new homes sales jumped in February, and many economists leaped on this as proof that the recession was "nearly over." Fewer jumped on the fact that the median selling price rose to $127,500, second highest price on record.

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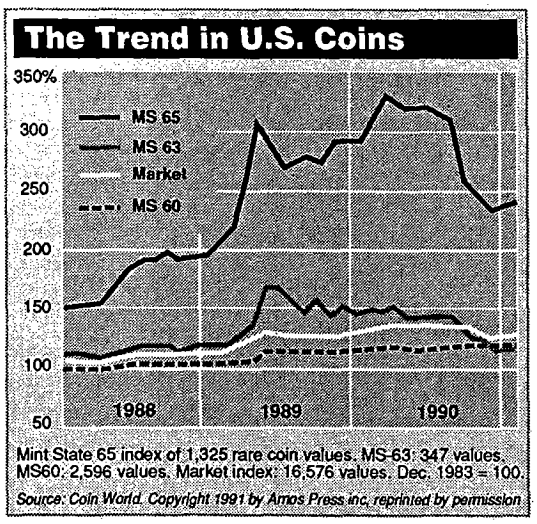
I was a stamp collector for years, then when prices got wild during the late-1970s and early-'80s I stopped buying. After that came a great fall in stamp prices, and prices have never really recovered. How about coins? Here's a chart that tells the story. The "mint state" or MS 65 coins had a major run-up during 1988-89 into early-1990, and then -- slump. The lesser-grade coins below MS 65) had a blip up, but the action was all in MS 65s or better. The market has now leveled off, and I doubt if there's going to be a big push in coins until the precious metals in general go into a bull market. When things are quiet in the metals, they call it "accumulation time." In coins and stamps, they call it the time for "real collectors." In the meantime, the speculators and investors are out until the next boom.



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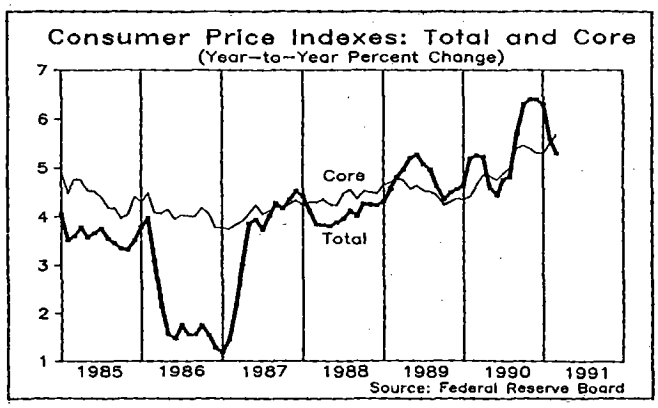
What's the Fed afraid of? Why are they still worried about inflation? Here's the answer. The "core rate" of inflation keeps rising. The core rate is the rate minus energy and food, in other words, clothes, medical, insurance, entertainment, rent, all those "little things" that keep rising in price month after month, year after year. This chart (courtesy of *Value Line*) shows the core rate (light line). The core rate turned up in early 1987 and has been climbing to new highs ever since.



Ghosts and Arena Madness: What is it that keeps last decade's athletes coming back again? Do they all think they are Nolan Ryan (who never quits, just keeps going on forever)? George Foreman (43) is back fighting at 260 pounds. Sugar Ray Leonard, after a bad beating, is probably quitting for good. Now ex-heavyweight champ Larry Holmes, on the retread trail, has won his first "new" fight. Bjorn Borg of tennis fame announces that he's returning (after going broke). Finally, Mark Spitz, the fabulous swimmer who won seven gold Olympic metals in Munich in 1972, is returning at the age of 41. Spitz believes he can make the next Olympics. What brings these former heros back, the call of fame or the call of money? In most cases it's spotlight-withdrawal pains, but in other cases the ex-athletes just need the money. The saddest case of all was Joe Louis, the great Brown Bomber, who spent or lost or was cheated out of all his money. Louis was finally "let off" by the IRS and ended up as a dazed greeter in a Las Vegas casino.

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CNN's coverage of our latest war created so many fans that CNN now offers a booklet telling what hotels from Maine to Zambia offer the service. Want to know what's going on during your next trip? Write to *CNN News Info.*, 7th Fl. North, One CNN Center, Atlanta, GA 30348.

CNN will be getting some tough competition, not from an American company but from the British Broadcasting Company. BBC plans for World Service Television News. The first step will be a news program beamed to BBC's 8 million European subscribers.

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Speaking of broadcasters, a decade ago 90% of viewers watched the big three's programs. Now only 60% do. Only NBC made any money over the last year. And there are hints from the owners of ABC and CBS that if their profit future doesn't improve, these outfits may drop out of the broadcasting business.

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A recent study (based on only 957 cases) suggests that lefties die younger. I hope not, I'm a lefty (and so was Picasso, who was still chasing women in his 90s). Want to be a President? Easy, be a lefty. Ford, Reagan and Bush are all lefties. Other lefties -- Alexander the Great, Napoleon, Queen Victoria, Julius Caesar, Charlemagne, Einstein, Leonardo Da Vinci, Michelangelo, Ben Franklin. Also Charlie Chaplin, Babe Ruth, Lou Gehrig, Marilyn Monroe, Cole Porter, W.C Fields. And how about George Burns, a lefty in his 90s who still smokes cigars every day.

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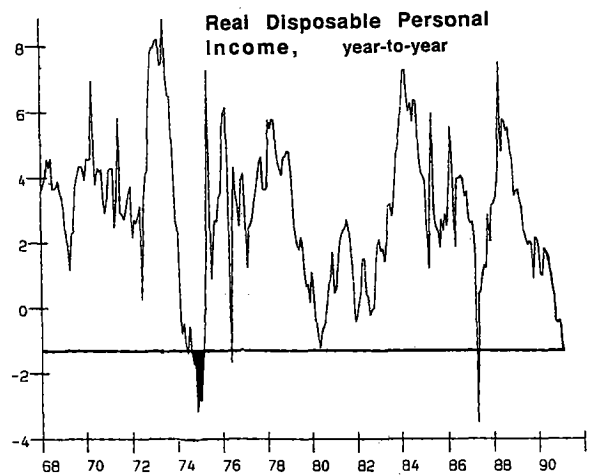
Much has been made of the big pop in consumer confidence, but the figures were fudged. The surge in consumer confidence had to do with future expectations. Consumer's feelings about their present condition continues to deteriorate. Economists feel that if the nation is to get out of recession, it is consumer spending that will do the job. But this chart shows that the consumer's real disposable personal income is still dropping. The chart is courtesy of Ed Hyman and his new organization, *International Strategy and Investment.* Says Ed, this is the "weakest purchasing power since the 1974 recession." So it's hard to believe that consumers will become enthusiastic buyers while they are still heavily in debt and while their real buying power is scraping the bottom.



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Business Week magazine, a publication which tends to be stubbornly bullish (*Fortune* magazine is now the perma-bull), is having second thoughts about the situation. Here's their current assessment: "Looks like the beginnings of a turnaround, right? Take another look. Unemployment is rising -- to an eight year high. Long-term interest rates have moved back up. Car sales aren't showing any postwar bounce. Corporate earnings look shakier than expected. Factory orders are falling. And prospects for exports are dimmer, because of the growing threat of an economic downturn . . . The economy's near-term fate is in the hand of the consumer's, and they are ill-equipped to lead a recovery. Real incomes are falling, the savings rate is historically low, and

household debts are so high -- relative to incomes -- that taking on more would be foolhardy."

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A NASA spokesman calls the 600 burning oil wells in Kuwait the greatest ecological disaster in history.

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What's the world's biggest market? It's FOREX, the foreign exchange market. How big? Enormous -- the monthly turnover in foreign exchange averages $14.78 trillion! The biggest FOREX center is London, followed by NYC and then Tokyo. Interestingly, foreign exchange turnover is around 30 times as big as the actual commercial goods and services traded. A large amount of FOREX has to do with banks trading with each other.

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Columbia has become the counterfeiting capital of the world. The Secret Service estimates that 30% of the fake US money circulating around the world was made in Columbia. In the last year, the Secret Service has confiscated $46,281,990 in fake money from Latin America.

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The US has been pressuring Japan to slow down its huge trade surpluses. US pressure hasn't worked. The March figures show Japan's trade surplus jumped 24% to its highest level since 1988. One thing that's happening is that Japan is exporting from Japanese-owned factories in other countries, notably Asian nations.

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Watch Iran. Reports reaching Washington say that Iranian revolutionary guards are infiltrating Iraq, as they move to further Iran's dream of a Shiite fundamentalist state in southern Iraq. If it happens, say goodbye to Bush's plans for the Persian Gulf.

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This from the latest *Eliot Janeway* report (15 E. 80 St., NYC 10021): "Everyone is seeing that the interest rate drops that get into the newspapers don't make any real difference in an economy that is borrowing from the banks, banks which can only stay above water thanks to high-rate consumer loans . . . In the New York area people are now being hit with over $40 a week in toll charges to commute to work. Such complaints are multiplying all over and these costs are rising even while price wars rage. Ordinary people can already count how today's slump is raising inflation costs -- though the market merely suspects it, and the economists are still waiting to be told."

DECADES: Last week my wife, Faye, a good friend (he's a nuclear physicist) and I sat down for coffee and bialis (if you've never eaten a biali, you're missing a treat), and our talk turned to the various decades and what they signified.

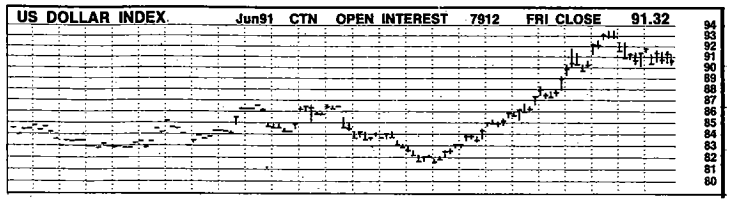
We wanted to come up with the word or words that characterized each decade. We started with the 1920s, and here are our thoughts:

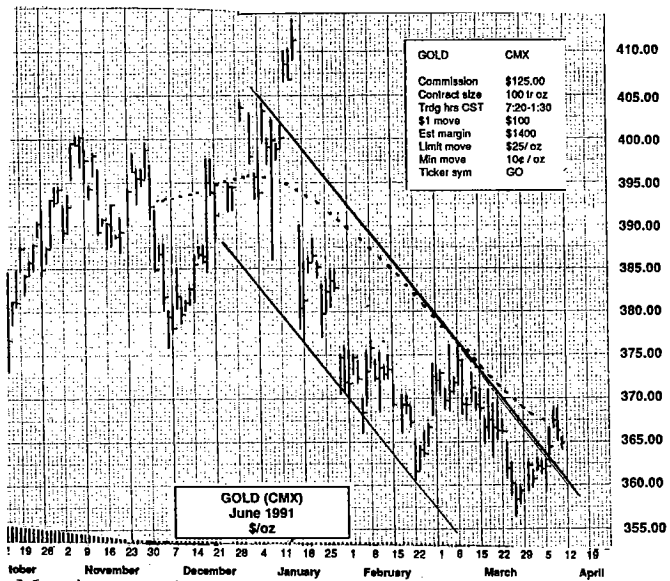
The 1920s -- Jazz age, wild speculation.
The 1930s -- Depression, unemployment, gloom.
The 1940s -- War, sacrifice.
The 1950s -- Consumption, Eisenhower, McCarthy.
The 1960s -- Youth, narcotics, revolt.
The 1970s -- Sexual revolution.
The 1980s -- Greed, computers, "me generation."

And now we come to the 1990s, and if you can guess the right word or words you could probably make a fortune. Here's my personal guess: 1990s -- Debt repayment, Asia, vicious competition, technology.

GOLD: Is gold doing anything worthwhile? Well, it might be starting to. Last week, the June gold contract rallied above a fairly good downtrend line that has held the metal in check since last January. Also, gold pushed just slightly above its 40-day moving average which now stands at 367.

What would be impressive here? Impressive would be a gold (June contract) rally to the 375-377 area, then a pull-back. IF that occurs gold would have formed a head-and-shoulders bottom. Obviously, it would be promising if gold simply held above its 40-day moving average, which means holding in the 368-370 area.





Most investors have probably long ago stopped watching gold. But I'm sure the Fed is watching it. The last thing the Fed wants to see is a good gold rally from here. Even slight but steady strengthening in gold would lower the Fed chances of lowering interest rates.

Despite suspect government figures, I believe the underlying inflation rate continues on the upside. Auto manufacturers, both US and Japanese, have been sneaking in price boosts with Chrysler and Toyota leading the parade. Service costs (and anybody who pays the bills knows this) keep climbing. Furthermore, the dollar (accompanying chart courtesy of *Investor's Daily*) is beginning to look toppy while most of the foreign currencies appear to have bottomed against the dollar.

The ratio of gold to silver has now dropped from its recent lofty ratio of over 100 (i.e., 1 ounce of gold buys 100 ounces of silver) to the current ratio of 91 to one.

Two gold stocks will give you all the participation in gold equities that you need. They are American Barrick and ASA. Both are extremely sensitive to any movements in the price of gold. ABX has been a "tiger," and appears to want to go up on any encouragement from the gold price.

LATE NOTES: What is most impressive about this stock market is the steady rise in breadth. From the January 15 low of minus 17.95, the A-D ratio has rallied to an April 11 high of minus 11.35. That represents an advance of 6.60 points without so much as a one point decline. This action places the entire breadth rise from January 15 within my definition of a "buying stampede." The stampede will continue **until the A-D ratio drops one full point from its highest level.**

The rationales behind the current stampede are many. One is that an euphoria was triggered by the Persian Gulf victory. Another is that the secondary stocks were just plain undervalued and neglected and ready to move up on any pretext. A third is simply that the recession has seen its worst and that better times are coming. A fourth is the advent of lower interest rates as the Fed tries to get the economy moving again. Take your choice -- any or all of the "reasons" could be right or wrong.

When the public is hot for stocks, Wall Street obliges. New issues are coming out, new untested concept shares are being swallowed up, the urge to own stocks has developed into a frenzy. And that's what "buying stampedes" are all about.

NEXT MAILING: May 1